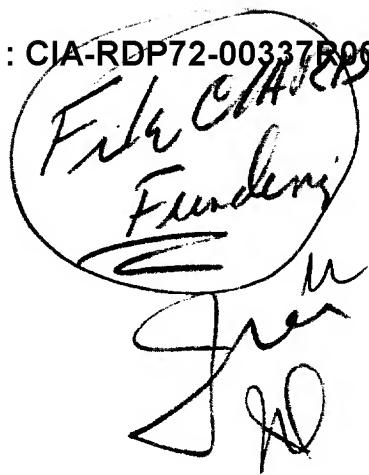


Approved For Release 2001/03/30 : CIA-RDP72-00337R000300150002-8



ERG:

Approved For Release 2001/03/30 : CIA-RDP72-00337R000300150002-8

SECRET

DD/S 70.3692

OKC 70-0634

2 SEP 1970

MEMORANDUM FOR: Deputy Director for Support

SUBJECT : Definition of Unfunded Liability as Used in Proposed
Amendment to the CIA Retirement Act

1. This memorandum is to supplement our telephone conversation on the above subject to more fully explain the nature of a potential question by the Department of the Treasury concerning the subject definition.

2. The term "unfunded liability" as applied to retirement funds in actuarial parlance represents the measure of the shortfall in funds on hand required to fully satisfy benefits to be paid to existing participants, annuitants and survivors thereof based upon service performed through the date of the valuation (past service). The definitions of unfunded liability as stated in the recent amendments of the Civil Service Retirement Act and the Foreign Service Retirement Act on which our proposed legislation is patterned do not conform with this concept. Instead, those definitions result in increasing the unfunded liability to also include the shortfall between the present value of benefits to be paid to existing eligibles based upon future service and the present value of deductions from employee salaries and Agency contributions for such future service. For reasons unknown to us, Treasury has not previously questioned the definitions as used in previous legislation.

3. The impact of the question is illustrated in Tabs A and B attached. Specifically, Tab A represents the balance sheet for the CIA Retirement system valuation as of 31 December 1968 which is now being completed by [REDACTED]. Item 6, "Excess of Liabilities over Assets" totaling [REDACTED] is the unfunded liability as of 31 December 1968 in the classic actuarial sense. The proposed statutory definition does not require recognition of the present value of estimated future appropriation requirements, shown as item 5.b., "At [REDACTED] by appropriation," totaling [REDACTED]. Thus if unfunded liability was computed on the basis of the proposed statutory definition, item 5.b. would not represent a proper entry on the balance sheet and the resulting unfunded liability would increase to a total of [REDACTED]

25X1A

25X1A

25X1A

25X1A

25X1A

SECRET

SECRET

SUBJECT : Definition of Unfunded Liability as Used in Proposed
Amendment to the CIA Retirement Act

4. For your additional information, there is attached as Tab B an excerpt from the proposed amendment to the CIA Retirement Act reflecting the proposed definition of unfunded liability, adjusted to reflect the substance of correcting language contemplated by Treasury as we understand it.

25X1A

5. Aside from the technical aspects of the point, in the practical sense application of Treasury's position would result in annual payment by Treasury of interest calculated on [REDACTED] Our fund would then realize only about half as much from Treasury for this purpose. The difference would, of course, increase unfunded liability (assuming no change in rate of other contributions) on subsequent evaluations and thus result in increasing interest payments. Long term, it seems clear the fund will require additional input either from Treasury or through specific appropriation. I feel, at the moment, in the pragmatic sense, it makes little difference to us whether Treasury influences a change in the definition.

25X1A

6. The interpretation we have placed on Treasury's position is based upon informal discussions with Mr. [REDACTED] He did not indicate to us what position Treasury will take but we feel they will comment along the lines indicated.

25X1A

E. E. BUSH
Director of Finance

Attachments
Tabs A & B

SECRET

BEST COPY

AVAILABLE

25X1A

Approved For Release 2001/03/30 : CIA-RDP72-00337R000300150002-8

Approved For Release 2001/03/30 : CIA-RDP72-00337R000300150002-8

1 "(b) the cash balance of the fund on the books of
2 the Treasury; and

3 "(5) 'unfunded liability' means the estimated excess of
4 the present value of all benefits payable from the fund to
5 participants and former participants, subject to this Act,
6 and to their survivors, over the sum of--

7 "(a) the present value of ~~deductions to be withheld~~ ^{normal premiums on}
8 from the future basic pay of participants ~~currently~~
9 subject to this Act and ~~as of the date of computation~~ ^{as of the date of computation}
10 ~~Agency contributions~~ to be made in their behalf, plus
11 ~~(b) the present value of Government payments to~~
12 ~~the fund under section 261 of this Act; plus~~
13 "(c) the fund balance as of the date the unfunded
14 liability is determined.".

15 SEC. 102. (a) Section 261 of the Central Intelligence
16 Agency Retirement Act (50 U.S.C. 403 note) is amended by
17 inserting "(a)" after "261." and by adding the following new
18 paragraphs (b) and (c):

19 "(b) Any statute or authority based on statute which
20 authorizes--

OFFICE OF FINANCE NOTE:

Under the above change in definition, the present value of benefits payable from the fund based upon future service will be fully offset with the present value of normal premiums on future basic pay so that the net result will be unfunded liability for past service. The term "normal premiums" refers to "normal cost" as determined in the actuarial valuation as distinguished from the statutory rate of deduction from employees' basic salary and matching Agency contributions.